



Joint Legislative Audit Committee
Office of the Auditor General



FINANCIAL AUDIT REPORT
STATE TREASURER
YEAR ENDED JUNE 30, 1979

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-457**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

457

FINANCIAL AUDIT REPORT
STATE TREASURER
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

November 21, 1980

457

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the State Treasurer, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Merrill Tompkins, CPA; Ulrich Pelz; M. Osman Sanneh; and Karen Oliver.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with the federal Office of Revenue Sharing regulations, we have conducted a financial audit of the State Treasurer. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The State Treasurer, who provides banking services for State Government, is responsible for the custody of all monies and securities belonging to or held in trust by the State; for the investment of temporarily idle state monies; for the administration of the sale of state bonds, their redemption, and interest payments; and for the payment of warrants drawn by the State Controller and other state agencies. The State Treasurer is also responsible for reviewing the financial soundness of construction financing proposals for certain local districts.


AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the State Treasurer as of June 30, 1979, the related statement of revenues, expenditures, and changes in operating clearing, and the statement of revenues, expenses, and changes in retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the State Treasurer at June 30, 1979 and the results of operations and changes in operating clearing and retained earnings for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The column amounts on the accompanying financial statements captioned "Totals - Memorandum Only" and the accompanying supplemental information are not necessary for a fair presentation of the financial statements but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.



WESLEY E. VOSS
Assistant Auditor General

Date: August 29, 1980

Staff: Curt Davis, CPA
Merrill Tompkins, CPA
Ulrich Pelz
M. Osman Sanneh
Karen Oliver

STATE TREASURER
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP

JUNE 30, 1979

	Governmental Fund Type	Proprietary Fund Type	Fiduciary Fund Type	Account Group	Totals
	General	Internal Service	Agency	General Fixed Assets	(Memorandum Only)
<u>ASSETS</u>					
Cash	\$ 88,824	\$ 73,517	\$20,954	\$ --	\$ 183,295
Receivables	284,189	60,384	--	--	344,573
Due from pooled money investments (Note 3)	87,338,474	--	--	--	87,338,474
Prepayments to other funds	7,372	--	--	--	7,372
Expense advances to employees	750	--	--	--	750
Equipment	--	--	--	530,923	530,923
Improvements	--	--	--	48,605	48,605
Construction work in progress	--	--	--	56,030	56,030
Total Assets	<u>\$87,719,609</u>	<u>\$133,901</u>	<u>\$20,954</u>	<u>\$635,558</u>	<u>\$88,510,022</u>
<u>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</u>					
Liabilities:					
Accounts payable	\$ 107,906	\$ 58,901	\$ --	\$ --	\$ 166,807
Unclaimed deposits	--	--	20,954	--	20,954
Total Liabilities	<u>107,906</u>	<u>58,901</u>	<u>20,954</u>	<u>--</u>	<u>187,761</u>
Encumbrances Outstanding	<u>73,536</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>73,536</u>
Fund Equity:					
Investment in general fixed assets	--	--	--	635,558	635,558
Retained earnings - unreserved	--	75,000	--	--	75,000
Operating clearing (Note 4)	<u>87,538,167</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>87,538,167</u>
Total Fund Equity	<u>87,538,167</u>	<u>75,000</u>	<u>--</u>	<u>635,558</u>	<u>88,248,725</u>
Total Liabilities, Encumbrances Outstanding, and Fund Equity	<u>\$87,719,609</u>	<u>\$133,901</u>	<u>\$20,954</u>	<u>\$635,558</u>	<u>\$88,510,022</u>

The notes to the financial statements are an integral part of this statement.

STATE TREASURER

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN OPERATING CLEARING
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:

Interest income from pooled money investments (Note 2)	\$ 446,351,954
Fees and other revenues	<u>374,270</u>

Total Revenues	<u>446,726,224</u>
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Expenditures:

Current:	
Personal services	2,058,042
Operating expenses and equipment	881,680
Capital outlay	25,000
Reimbursements	<u>(986,772)</u>

Total Expenditures	<u>1,977,950</u>
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Excess of Revenues over Expenditures	<u>444,748,274</u>
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Other Financing Sources (Uses):

Intrafund transfers (Note 5)	(447,188,004)
Appropriations (Note 6)	3,272,454
Miscellaneous adjustments (Note 7)	<u>19,464</u>

Total Other Financing Sources (Uses)	<u>(443,896,086)</u>
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Excess of Revenues and Other Sources over Expenditures and Other Uses	852,188
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Operating Clearing - July 1	<u>86,685,979</u>
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Operating Clearing - June 30	<u><u>\$ 87,538,167</u></u>
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The notes to the financial statements are an integral part of
this statement.

STATE TREASURER
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
INTERNAL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Operating Revenues	\$ --
Operating Expenses	<u>138,116</u>
Loss before Operating Transfers	(138,116)
Operating Transfers In	<u>138,116</u>
Net Income (Loss)	--
Retained Earnings - July 1	<u>75,000</u>
Retained Earnings - June 30	<u><u>\$ 75,000</u></u>

The notes to the financial statements are an integral part of this statement.

STATE TREASURER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and the results of operations of the State Treasurer. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The accompanying financial statements are structured into Governmental Fund Types, Proprietary Fund Types, Fiduciary Fund Types, and an Account Group. The State Treasurer accounts for his portion of the three fund type categories. The State Controller maintains the central accounts for all state funds and annually publishes consolidated fund statements.

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except for those accounted for in Proprietary Funds--are accounted for through governmental funds. The General Fund is the only Governmental Fund Type accounted for by the State Treasurer.

The General Fund includes all financial resources not accounted for in another fund. This fund type is maintained on a modified accrual basis of accounting and includes these elements:

Revenues

Throughout the fiscal year, revenues are accounted for on a cash basis. At June 30, all revenues which are earned and expected to be collected are accrued.

Expenditures

Throughout the fiscal year, expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments including commitments for encumbrances outstanding for which no goods or services have been received are accrued as expenditures against budget appropriations.

Liabilities

Retirement Plan - Regular employees of the State Treasurer are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the State Treasurer and treasury employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. Retirement contributions for the year totaled \$262,078.

Vacation and Sick Leave - Costs of vacation and sick leave are charged when these benefits are used rather than when they are earned.

PROPRIETARY FUND TYPES

Proprietary Fund Types are used to account for measurements of net income and capital maintenance within a government's organizations and activities. These fund types resemble those often found in the private sector. The Internal Service Fund is the only Proprietary Fund Type of the State Treasurer.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies on a cost-reimbursement basis. The Internal Service Fund accounted for by the State Treasurer is the General Obligation Bond Expense Revolving Fund. This fund was created by Government Code Section 16724.5 to defray the legal, advertising, preparation, and redemption expenses related to the sale of general obligation bonds. The Government Code appropriated \$75,000 to this fund as a permanent working capital advance.

Proprietary Fund Types are maintained on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The Fiduciary Fund Type accounted for by the State Treasurer is an Agency Fund.

The Agency Fund maintained by the State Treasurer is the Special Deposit Fund which is primarily used to account for pooled money investment earnings flowing through the State Treasury. (Note 2 further discusses pooled money investments.)

The assets and liabilities of the Agency Fund are accounted for on the modified accrual basis.

ACCOUNT GROUP

The Account Group is used to account for general fixed assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance. The general fixed assets increased by a net of \$330,166 during the fiscal year.

2. INTEREST INCOME FROM POOLED MONEY INVESTMENTS

Pooled money investments consist of monies flowing through the Treasurer's demand bank accounts maintained in banks that serve as state depositories. Amounts that exceed the agreed balances in the banks are invested by the Treasurer and earn interest for the General Fund, the Surplus Money Investment Fund, the Local Agency Investment Fund, and the Fish and Game Preservation Fund.

3. DUE FROM POOLED MONEY INVESTMENTS

The balance of this account represents the interest earnings to be allocated to the General Fund from pooled money investments for the fourth quarter of the fiscal year ended June 30, 1979.

4. OPERATING CLEARING

Operating Clearing is the connecting link between the records of the State Treasurer and the central fund accounts maintained by the State Controller for the General Fund. The balance at June 30 represents the net assets and liabilities for which the State Treasurer is accountable.

5. INTRAFUND TRANSFERS

Intrafund transfers are cash receipts the State Treasurer remitted to the State Controller during the year; these receipts represent revenues, reimbursements, and refunds to reverted appropriations.

6. APPROPRIATIONS

Funds provided from appropriations consist of cash disbursed by the State Controller from the department's appropriations for the year ended June 30, 1979 and liquidation of expenditures accrued against appropriations for prior periods.

7. MISCELLANEOUS ADJUSTMENTS

This account includes the difference between the net amount of revenues and expenditures accrued as of the previous June 30 and the actual amount of revenues and expenditures incurred during the current fiscal year but related to a prior fiscal year.

SUPPLEMENTAL INFORMATION

The accompanying supplemental information presents a statement of changes in assets and liabilities of the Agency Fund and a comparison of budgeted expenditures with actual expenditures of the General Fund for the fiscal year ended June 30, 1979. While not necessary for a fair presentation of the general purpose financial statements, the supplemental information is included to provide additional analytical data.

STATE TREASURER
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>Balance</u> <u>July 1, 1978</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1979</u>
<u>ASSETS</u>				
Cash	<u>\$16,647,152</u>	<u>\$710,261,942</u>	<u>\$726,888,140</u>	<u>\$ 20,954</u>
<u>LIABILITIES</u>				
Unclaimed deposits	<u>\$16,647,152</u>	<u>\$710,261,942</u>	<u>\$726,888,140</u>	<u>\$ 20,954</u>

STATE TREASURER
COMPARISON OF BUDGETED EXPENDITURES WITH
ACTUAL EXPENDITURES
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>Budget as Adjusted</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
Expenditures:			
Personal services	\$2,125,900	\$2,058,042	\$ 67,858
Operating expenses and equipment	892,840	881,680	11,160
Capital outlay	25,000	25,000	--
Reimbursements	<u>(607,128)</u>	<u>(986,772)</u>	<u>379,644</u>
Total Expenditures	<u>\$2,436,612</u>	<u>\$1,977,950</u>	<u>\$458,662</u>

OTHER COMMENTS

As an integral part of our examination, we reviewed the department's accounting procedures and its related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the department's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

A management letter describing certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles was issued.

The State Treasurer generally concurs with the adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps